

Top Secret



DIRECTORATE OF
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Libya: Unilateral government actions continue to restrict operations of foreign oil companies.

Esso has been ordered to reduce its oil production next week by 104,000 barrels per day (bpd); only one of the six principal producers in Libya now has escaped a cutback. Total reductions amount to about 750,000 bpd, roughly 20 percent of the April daily peak production of about 3.7 million barrels. This will put further pressure on already tight tanker capacity and, in turn, aggravate the sensitive oil supply problem for Western Europe.

As a result of increased Libyan tax demands, the US-owned Gulf Oil company intends to relinquish its oil concessions in November. Gulf had discovered an oil deposit in 1959 in one of its concessions in western Libya, but had not yet begun production. The government claimed that the presence of oil in commercial quantities, whether or not produced, justified an increase in the land rent tax. Gulf apparently decided that this action, as well as the uncertain economic and political climate in Libya, made further investments of \$25-30 million unsound. It is prepared to write off its prior investment of \$30 million.

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Torrijos has indicated in the past his belief that a tough line was the best approach in dealing with the US. In July, for example, commenting on a Panamanian speech critical of the OAS, Torrijos reportedly stated that helicopters he received from the US subsequent to the speech showed that the "gringos" were stupid and gave gifts if you spoke harshly to them.

There has recently been a spate of press items magnifying alleged grievances with the Canal Zone. Torrijos has been given a new opportunity to attack the US with the implication of a zone policeman in a plot by deposed President Arias and former National Guard chief of staff Colonel Sanjur. The policeman, who apparently was lured out of the Zone and then arrested by Panamanian authorities, is charged with acting as a link between Sanjur, now in Miami, and antigovernment elements in Panama.

Torrijos, who seems convinced that the US is trying to topple him, probably will try to extract maximum propaganda advantage from this incident. Torrijos may feel that by publicizing the existence of a plot against him, he can forestall it. He may believe that such a move would discourage any Guard officer from joining the plotters and may hope to embarrass the US so that it would clamp down on any Panamanian exile activity.

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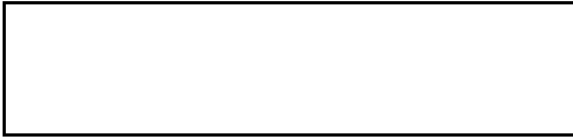
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